

## THE FEDERAL INTERNAL REVENUES

I had only served a few months as United States Commissioner of Internal Revenue, in the Roosevelt Administration, a service which was carried into the Taft Administration for a period of six months, before I was impressed with the fact that business men and lawyers, well posted, competent and learned in nearly every phase of business or professional life, were, with few exceptions, without knowledge or information as to the sources of the federal income and the system and laws regulating its collection.

The enormous amount collected for the support of the Government and the comparatively small amount which falls upon the individual citizen, together with the splendidly organized system of collection, is possibly responsible for this lack of information on the subject.

The three great sources of revenue coming into the United States Treasury are customs or tariff duties, internal revenue taxes and postal revenues. I shall direct my attention primarily to the source of revenue which passes into the Treasury through the Commissioner of Internal Revenue, and represents the income derived by the Government from articles subject to federal taxation.

It may be of some interest to review the origin of that method of raising funds for the National Treasury. The first excise or internal revenue law was enacted by Congress in 1791. Alexander Hamilton, then Secretary of the Treasury, if he did not actually draft the bill, certainly approved and urged its passage. Then, as now, distilled spirits were made to bear much of the burden of taxation, and then, as now, this levy was the source of irritation and opposition. This spirit of resistance was intensified because at the time of the enactment of the first internal revenue law in some of the most populous sections of the country, whiskey was a circulating medium. Then, "a gallon of good rye whiskey", says the historian, McMaster, "at every store at Pittsburgh, and at every farmhouse in the four counties of Washington, Westmoreland, Alleghany and Fayette, was the equivalent of a shilling piece."

The law of 1791 levied a tax on distilled spirits according to strength, ranging from seven to eighteen cents a gallon. The re-

sistance to this law was widespread and stubborn. The noted "Whiskey Insurrection" followed. Tax-gatherers representing the Treasury Department were tarred and feathered, beaten, and in some instances murdered. In fact, a modern moonshiner, were he a student of history, could greatly improve his mode of warfare by taking lessons from these pioneers, although the adoption of the tactics then employed would no doubt meet at this time with prompt defeat. Resistance to the whiskey tax of 1791 finally assumed such proportions that President Washington was compelled three years later to call into the field 15,000 troops, in the main veterans of the Revolution, to meet the insurgents. Surrender was prompt, the insurrection collapsed, and its suppression was virtually bloodless.

In times of extreme emergency, when large funds are needed to meet the expense of war, the internal revenue is usually invoked and the people always have, except in the first instance, responded patriotically. Debt incurred during the war of the Revolution led to the first excise laws. These were repealed in 1802, but the second war with Great Britain in 1812 forced their re-enactment. Four years later the system was again abolished and no revenue taxes were imposed for nearly half a century, when the enormous expenses of the Civil War developed an imperative necessity for a prompt and certain method for collecting revenue for the nation. Thus in 1862 the present internal system was devised and adopted. This was during the administration of Salmon P. Chase as Secretary of the Treasury.

When it became necessary to conduct the war between the United States and Spain, one hundred millions a year additional had to be raised. Congress once more returned to the internal revenue taxation. Taxes were resumed on various occupations, the rate on tobacco and beer was increased, and former sources of revenue, such as inheritance, legal instruments, bank checks, etc., were called upon under the War Revenue Act of 1898. Internal revenue collections grew from \$146,000,000 in 1897 to \$295,000,000 in 1900, and \$306,000,00 in 1901.

The extra revenue derived from the War Revenue Acts only, from June 13, 1898, to June 30, 1902, aggregated \$380,371,764, that is to say, this sum was collected over and above the normal receipts of the Government through the internal revenues during that period. After July 1st, 1902, the taxes levied to meet the expense of the war with Spain were abolished.

Shortly after retiring from the office of Commissioner and returning to the practice of law in Washington, I prepared and published a little volume on the general subject of federal taxation, from which I think the following would be of general interest as to the uses of taxable alcoholic spirits, tobacco and other things, from which the Government derives such a tremendous revenue. It is estimated that there are fifty drinks of whiskey in a gallon, the tax therefore on an ordinary drink of whiskey, is 2c. The record justifies an estimate of nineteen million drinks of whiskey taken in the United States every day, and the tax on the distilled spirits thus consumed in the United States in ten days would build a modern United States battleship.

The tax on a cigar is three-tenths of one cent. Every day the smokers of cigars in the United States consume about twenty million cigars and pay sixty thousand dollars into the United States Treasury daily. The tax on ordinary cigarettes is one dollar and eight cents per thousand. Every day the cigarette smokers in the United States consume approximately eight and one-half million cigarettes and pay daily into the country's treasury nearly ten thousand dollars. The smokers of cigars and cigarettes pay, therefore, *every day* seventy thousand dollars into the Federal Treasury.

The tax on a pound of smoking or chewing tobacco is six cents. There is an average of one hundred and twenty "chews" of tobacco in a pound. Our Federal Government therefore gets one-twentieth of one cent per "chew." The consumers of chewing and smoking tobacco therefore pay into the Treasury sixty thousand dollars a day.

There were over twenty-five million packs of playing cards sold during the fiscal year of 1913, from which a tax of more than half a million dollars was collected, an amount entirely adequate to support the Military Academy at West Point.

The recent report of the present Commissioner of Internal Revenue shows that during the last fiscal year there was collected through the imposition of federal taxation, three hundred and forty-five million dollars (\$345,000,000.), in round numbers, an increase of \$23,000,000 over the prior fiscal year, this being due however to some extent, to the additional amount collected from the Corporation Excise Tax Law. The articles of taxation furnishing the *additional increase* in collections for the last year being: distilled spirits, \$7,500,000; manufactured tobacco, includ-

ing cigars, cigarettes and snuff, over \$6,000,000; fermented liquors, beer, ale, etc., nearly \$3,000,000; and from the Corporation Tax Law, \$6,500,000.

One feature in connection with the collection of so great an amount of revenue which is worthy of attention, primarily to bankers, lawyers, and collection agencies, is found in the fact that at no time has it cost more than 2% of the amount collected, for its entire collection. The amount for collection has ranged from 1.92% down to 1.60%. Such a record of making collections at the least possible cost, bears tribute to the business methods of at least one of the federal departments. Especially is this true, when it is remembered that customs or tariff duties are paid when taxable articles come into this country and the internal revenue tax is collected on the article manufactured in this country, it would seem that the internal revenue tax would be the more difficult to collect, and, therefore, the cost of collection greater. The reverse is true, however, and is due to several causes, among them being the comparatively few articles upon which internal revenue tax is imposed, and the manner of indicating that the tax has been paid. The principal cause, however, is the difference in the number of people who are benefited or could be benefited by violating the law.

Any one who wants to consume or use a foreign made article would be benefited in a financial way, if he could get that article into the country free of duty. Government officials are therefore expected to prevent violations of the customs laws.

On the other hand, as regards articles upon which internal revenue tax is imposed, the manufacturer or dealer might be interested in evading the tax, but never the consumer.

In the case of the internal revenue tax, therefore, it is limited to the manufacturers of and the dealers in the objects of taxation.

This review is sufficient to suggest at once at least one reason for the opposition to prohibition not only in some of the states, but in the National Congress, when that question is suggested there, as it now is, by the extreme and unusual proposal for an amendment to the Federal Constitution prohibiting the sale or manufacture of distilled or malt liquors in any form throughout the United States. That is, the taxpayers naturally wonder in what way and from what source three hundred and fifty million dollars a year would be raised to take the place of the portion of

that enormous amount which represents the tax on whiskey, brandy, gin, wines and beer. Although of course there are minor objects of taxation which go to make up the above total, that is, tobacco in all of its forms, oleomargarine, adulterated and process butter, filled cheese, mixed flour, playing cards, and penalties or fines collected in connection with violations of the law, this last item amounting to something over half a million dollars a year.

In conclusion it should be borne in mind that the Corporation Tax Law, passed only a few years ago, to "provide revenue, equalize duties and encourage the industries of the United States and for other purposes", has now become a part of and is worked into, the recent law which is commonly known as the Income Tax Law, passed by Congress October 3rd, 1913. That law of course goes ever so much more into the taxation of the individual than its predecessor, the Corporation Tax Law, although the constitutionality of the Income Tax Law is being challenged now by several cases pending in the Supreme Court of the United States. Nevertheless, the Internal Revenue Bureau is proceeding with great activity under the provisions of that Act, and it is the hope of those who framed the law and brought about its passage through Congress, that many millions of dollars will be added to the Federal Treasury through that source.

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